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Dept. Of Commerce & Insurance
Company Examinations

Report of Examination
of
The Johnson County Mutual Fire Insurance Company
Johnson County, Tennessee

Roby J. Howard, Jr., Secretary
383 South Shady Street
Mountain City, TN 37683

Examination made as of: December 31, 2003

Examiner in Charge: Donnie R. Nicholson, Examiner III

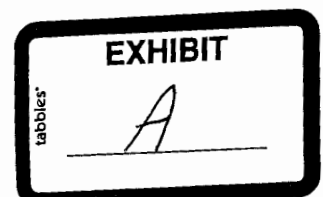
Examination commenced: January 28, 2004

Examination completed: June 19, 2004

Date of Report:

Examined as of: December 31, 2003

Last Examination as of: December 31, 1998



Commissioner Paula A. Flowers
Department of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner:

Pursuant to your instructions, I have made an examination and submit the following report of the conditions and affairs of the

Johnson County Mutual Fire Insurance Company of Johnson County, Tennessee

Mountain City, Tennessee

Officers

<u>Title</u>	<u>Name</u>	<u>Address</u>	<u>Term</u>
President	Malcolm S. Howard	Mountain City, TN	2006
Vice President	Thomas L Culver	Butler, TN	2004
Secretary & Treasurer	Roby J. Howard, Jr.	Mountain City, TN	2005

Directors:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Willis E. Arnold	Butler, TN	2005
Thomas L Culver	Butler, TN	2004
John H. Hall	Mountain City, TN	2005
Malcolm S. Howard	Mountain City, TN	2006
Randall S. Howard	Mountain City, TN	2006
Roby J. Howard Jr.	Mountain City, TN	2005
Charles M. Mcqueen	Shady Valley, TN	2006
Carl S. Phillippi	Mountain City, TN	2004
D. Kyle Pierce	Mountain City, TN	2005
Alexander S. Snyder	Mountain City, TN	2004
Dean H. Thomas	Trade, TN	2006
French W. Thomas	Laurel Bloomery, TN	2005

Compensation of officers, directors, appraisers, adjusters, et al:

President \$1000.00 per month salary plus \$2000.00 IRA bonus per year
Secretary/Treasurer \$3,500.00 per month
Directors receive \$150.00 per meeting
Agents receive \$75.00 per application
Office help \$3,600.00 per year

Report of changes in the Constitution or By-Laws, policy forms, or other agreements during the period covered by this examination.

None

If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report?

N/A

Report on reinsurance assumed and / or ceded.

1. Property First Surplus Reinsurance Agreement

Effective Date: January 1, 1998 to be renewed annually until cancelled. Each party may cancel if 60 days notice is given Reinsurer Farmers Mutual Fire Insurance of Tennessee

Coverage and Limits : Company may cede contracts of insurance which shall not exceed Four (4) times the Company's net retention or \$100,000.00 on any single risk. The minimum net retention is \$40,000.00, however the Company can cede up to 50% of any risk below \$40,000.00. Termination of this agreement is on a run off basis.

Premium: Premium is on the original gross rate charged by the Company less cancellations and return premiums. The Company will be allowed a 25% commission on the net premium ceded. The reinsurer shall make a future allowance of 15% commission on the net profit.

2. Aggregate Excess of Loss Reinsurance Treaty

Effective Date: January 1, 1998 / Reinsurer: Farmers Mutual Fire Insurance Company of Tennessee

Coverage and Limits: The Agreement covers net excess liability on policies covering business classified by the Company as covered business. This contract is for catastrophic losses when the Company's ultimate net loss is 70% or more of net written premium income; then the reinsurer will liable for 95% of the losses, but the reinsurer's liability will not exceed \$150,000.00 in each agreement year.

Premium: The premium is to be calculated at a rate of 4.00 % of gross net written premium income for the term covered. An annual deposit of \$7,500.00 is to be paid each January 1st to the reinsurer. There is a \$6,000.00 minimum annual premium. Termination of this Agreement shall be on a run-off basis.

Appraisal and classification of risks taken.

Appraisals are made at the time of Application and is taken by the Agent. The District Director and Secretary/ Treasurer must approve the Application before the policy is issued.

Annual rate of assessment per \$1,000.00 for period covered:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Fire	\$4.95	\$4.95	\$4.95	\$4.95	\$4.95
Regular Mobile Homes	\$14.85	\$14.85	\$14.85	\$14.85	\$14.85
Superior Mobile Homes	\$9.90	\$9.90	\$9.90	\$9.90	\$9.90
Double Wide Mobile Homes	\$7.45	\$7.45	\$7.45	\$7.45	\$7.45

Rate of membership, policy and initial fees charged.

There is no membership fee. On new policies the Company collects the first 6 or 12 months premium in advance. Policies are written for 6 or 12 months.

Date of last assessment.

December 2003

Amount delinquent.

None

Did that assessment provide for all losses , expenses and other liabilities, including borrowed money.

Yes

Amount of money borrowed since date of last assessment.

None

Location of Books and Records

383 South Shady Street
Mountain City, TN 37683

Exhibit of Risks

	<u>Amount</u>
1. In force, December 31, 2002	\$38,314,585
2. Written	5,274,000
3. Renewed	136,000
4. Total	<u>\$43,724,585</u>
5. Deduct those expired and terminated	(2,998,200)
6. In force, December 31, 2003	\$40,726,385
7. Amount reinsured	(8,970,000)
8. Net Amount in Force	<u>\$31,756,385</u>

Financial Statement

Income

Gross Membership Fees	<u>\$19,690</u>	
Deduct Return Membership Fees	0	
Net Membership Fees		<u>\$19,960</u>
Gross Assessments	<u>\$237,363</u>	
Deduct: Reinsurance Premiums	(18,388)	
Net Assessments		<u>\$218,974</u>
Interest Income		12,627
Transfer Fees		5
Liability Insurance Fees		4,714
Miscellaneous Income		57
Total Income		<u>\$256,067</u>
Ledger Assets, December 31, 2002		<u>\$478,100</u>
Total Income and Balance		<u>\$734,167</u>

Disbursements

Gross amount paid policyholders for losses	<u>\$29,236</u>	
Deduct: Reinsurance paid	0	
Net Amount paid policyholders for losses		<u>\$29,236</u>
Expenses of adjustment and settlement of losses		15,044
Commission or brokerage, including membership fees		
Retained by agent		7,575
Salaries and compensation of officers, directors, & employees		102,119
Advertising, Printing and stationery		4,604
Postage, telegrams, telephones and express		3,969
Legal and Professional Fees		3,930
Repairs and Maintenance		1,677
Insurance department licenses and fees		4,442
All other licenses, fees and taxes		6,971
Utilities		2,011
Insurance		20,826
County Fire Department		1,750
Dues and Subscriptions		1,635
Travel and Employee Benefits		13,126
Total disbursements		<u>\$218,916</u>
Balance		<u>\$515,251</u>

Assets

Cash in banks (checking)	\$44,934
Cash in banks (Money Market)	\$30,911
Certificates of Deposits (banks)	\$400,000
Book value of bonds and stocks	\$2,000
Book value of real estate	\$37,406
Total admitted assets	<u>\$515,251</u>

Liabilities

Total Liabilities	<u>\$-0.00-</u>
Surplus over all liabilities	\$515,251
Total	<u>\$515,251</u>

Schedule of Bank Deposits:

<u>Name of Bank</u>	<u>Amount on Bank Statement</u>	<u>Amount of O/S Checks</u>	<u>Adjustment Items</u>	<u>Balance</u>
Farmers State Bank (checking)	\$44,934	0	0	\$44,934
Farmers State Bank Savings)	\$30,911	0	0	\$30,911
Farmers State Bank (CD)	\$50,000			\$50,000
Johnson County Bank (CD)	\$100,000			\$100,000
Citizens Bank (CD)	\$100,000			\$100,000
Franklin Savings Bank (CD)	\$50,000			\$50,000
Elizabethton Federal (CD)	\$100,000			\$100,000
TOTALS	<u>\$475,875</u>			<u>\$475,845</u>

Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon:

NAMICO Common Stock	\$2,000.00
Main Office Building	\$37,406.00

Assets pledged or hypothecated:

None

Comments on claims, borrowed money and other liabilities:

None

Comments on acts of officers and directors; any apparent violations of the Association's By-Laws, or of the laws of the State of Tennessee; general comments regarding the conduct of business:

Directors and Officers Liability Policy: The Company has a policy with Scottsdale Insurance Company. The policy period runs from June 5th of each year. Limited liability is \$1,000,000.00 each loss and aggregate for each policy year with a \$2,500.00 deductible each claim.

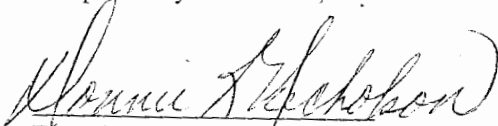
Agent's Errors and Omissions Professional Liability Policy: The Company has a Policy with Scottsdale Insurance Company, Scottsdale Arizona. \$1,00,000.00 liability limit for each claim with a \$2,500.00 deductible.

With regard to Tenn. Code Ann. § 56-21-122, there are no violations since those persons receiving compensation for policy applications are not involved in the final acceptance or rejection decision.

The Company appears to be well managed by the Directors and Secretary / Treasurer, and operated in the best interest of the policy holders.

The complete and courteous cooperation of Mr. Roby J. Howard, Jr., Secretary and Treasurer, extended during the course of the examination is hereby acknowledged.

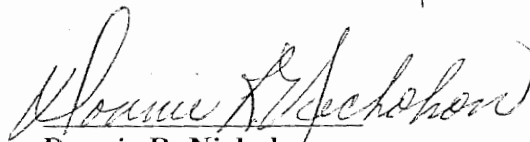
Respectfully submitted,



Donnie R. Nicholson
Insurance Examiner in Charge

Examination Affidavit:

The undersigned deposes and says that he has duly executed the attached examination report of The Johnson County Mutual Fire Insurance Company of Mountain City, Tennessee dated and made as of December 31, 2003, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



Donnie R. Nicholson
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

County Davidson
State Tennessee

Subscribed and sworn to before me
this 18th day of
June, 2004.

Helen M. Darby
(Notary)

My Commission Expires: 03/31/06